



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### Reforming the European Financial Supervisory Architecture

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03/30/2017

The Brexit decision opens up new opportunities to further develop the banking and capital markets union. An opinion by Jan Krahn



Brexit has been officially declared. Besides all insecurity and instability that accompanies UK's withdrawal from the European Union, this step also opens up the chance to redesign and develop the European financial supervisory architecture. Brexit forces the European Banking Authority (EBA) to leave London and to look for a new location within the European Union. This should be taken as an opportunity to re-organize the entire regulatory and supervisory architecture for European banks, insurances and capital markets.

At first, it seems reasonable to merge the forces of EBA and the European Insurance and Occupational Pensions Authority (EIOPA) and form a joint institution. As insurance companies increasingly offer financial services, the boundaries between banks and large insurance companies are no longer as sharp as they

were some years ago. A joint regulatory authority would help to avoid inconsistencies in regulatory rules across these two tightly intertwined sectors. Access to a joint data base would also be of great importance. Hence, there are not only organizational but also content-related arguments for a joint authority – which is already reality in many EU member states.

In this context, it further needs to be discussed whether the tasks of the Single Supervisory Mechanism (SSM), that currently puts the supervision of systemically important banks from the euro area and further voluntarily participating EU countries in charge of the European Central Bank (ECB), should be extended to include large insurance companies. Due to a potential conflict of interests one could also argue in favor of detaching the SSM from the ECB. However, such a move would raise the question of how such a conflict between two independent institutions could be solved in general without a superordinate body.

A further – and necessary – step to improve the European supervisory architecture would be the implementation of a common European supervisor for financial markets and stock exchanges. Here, the competencies of the European Securities and Markets Authority should be strengthened and expanded. Currently, stock exchange supervision lies within the responsibility of national authorities which would have to hand over competencies to the European level in case of an enhancement of the ESMA. A centralized capital markets authority, comparable to the SEC in the U.S., could be the first step in the direction of a common European capital market that is attractive to international investors and issuers. With regard to Brexit, this is of particular importance. A common European capital market would establish a counterweight and an alternative to London, currently the most important trading center in Europe.

A re-organization of the European financial authority architecture with a joint regulation, more transparency and a common authority structure would strengthen the performance of European capital markets and create more integration in a field where cross-border cooperation is highly advantageous and curbs serious contagion risks. This would not only advance the European banking and capital markets union but also be an important signal towards EU sceptics.

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